



CENTER ON BUDGET AND POLICY PRIORITIES

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ESTATE TAX AFFECTS VERY FEW FAMILY BUSINESSES

On February 6, the Center on Budget and Policy Priorities issued an analysis, “Estate Tax Repeal: A Costly Windfall for the Wealthiest Americans.” The report shows that, contrary to popular impression, today’s estate tax has little impact on the vast majority of small businesses and family farms. Solving the problems of the relatively few small businesses and farmers that are affected does not require repealing the estate tax in its entirety. The report makes the following points:

The full report can be viewed at
<http://www.cbpp.org/5-25-00tax.htm>

- Only 2 percent of the estates of people who die each year are subject to the estate tax. Of those estates that are subject to tax, very few include family-owned farms or businesses. In 1998, family-owned businesses or farms formed the majority of the estate in just 1,418 estates out of the approximately 2.3 million people who died in that year. This means that the debate about estate tax relief for family farms or businesses involves a question that arises only for six out of every 10,000 people who die.
- Taken together, all farms and family businesses account for less than four percent of the assets in taxable estates valued at less than \$5 million.
- Family farms and businesses are already eligible for special treatment under existing law. A couple can exempt up to \$2.6 million of an estate that involves such a business or farm, nearly twice the normal exemption. Moreover, special rules allow these farms and businesses to be valued as much as \$800,000 below their market value for estate tax purposes, and the payment of any estate taxes can be deferred, with interest charged at below-market rates.

Providing relief for family farms and businesses can be done without wholesale repeal of the existing estate tax laws:

- Last year Rep. Charles Rangel proposed a plan that would give couples a \$4 million exclusion and reduce all estate tax rates at a cost of \$7 billion annually. This compares to a cost of nearly \$60 billion a year for the Bush proposal to repeal the estate tax, when the provision is phased in fully.
- Senate Democrats last year proposed a plan that would nearly triple the exemption levels for family farms and businesses compared to today’s law and exempt nearly all family farms and nearly three quarters of family businesses from estate taxes. This approach, which also included a larger exemption for all estates, would have cost about one-third of the Bush repeal proposal.